

A critical assessment of recent trends in Dutch industrial relations

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**A CRITICAL ASSESSMENT OF RECENT TRENDS IN
DUTCH INDUSTRIAL RELATIONS**

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1. Introduction

The interpretation and characterization of the Dutch system of Industrial Relations is more difficult than ever in the last 100 years. During the first half of the 20th century there was a process going on of increasing collectivization. After the Second World War the Dutch system was clearly structured along democratic corporatist lines for a period of about 20 years. A huge welfare state was built, while economic growth continued on a historically high level. The breakdown of the international gold/dollar standard, two severe oil crises and a world wide depression meant a complete change in atmosphere: the animal spirits of the investors shifted from an optimistic towards a pessimistic state.

During the sixties already, there was a tendency towards decentralization and less intervention of the government. In the early sixties, especially the employers' organizations strived for more industrial differentiation. In the late sixties, especially the unions strived for less government intervention into the wage determination process. When the hausse in the world economy came to an end in the first half of the seventies, the Dutch government decided to a tight wage policy during the rest of that decade. As far as the bargaining parties were free to decide upon labour conditions, there was bargaining most on the industry, but to an increasing degree on the firm level.

From 1979 on the unemployment rose sharply, which led to a break in the confidence policy makers had in their Keynesian approach. In 1982 the government promised the unions and the employers' organizations not to intervene into the (wage) bargaining process anymore. On the central level only 'Recommendations' were formulated. At the industry level the main Collective Labour Agreements (CLA's) were concluded. The big companies had their own CLA's for already a long time, fitting their own situation. The government saw it as its main task to make its own financial position more sound: lower deficits and a lower debt ratio.

Now, after 8 to 10 years of decentralised wage bargaining and restructuring of government finance there is some economic improvement, but in social terms there is nearly no improvement at all. Economically we see an improvement of government finance in terms of lower deficits and debt ratios. Moreover there is improvement in terms of economic growth and even with respect to the employment level. Socially spoken however, we see almost no improvement. During the eighties the unions have been modest in their wage claims, as is expressed in a structural decrease in the wage share. However, the income inequality has arisen and the unemployment nearly lowered.

As already said the developments in the area of industrial relations are difficult to interpret. We observe examples of further collectivization - the agenda of the CLA-negotiations has grown. The role of the Central Consultations may have changed, but not diminished. But on the other hand there are examples of deregulation and privatization. So it is difficult to decide to a process of centralization or decentralization or to characterizing Dutch industrial relations by processes of collectivization or privatization. In fact there is only one unambiguous development and that is a process of integration of the area of industrial relations and the area of social security, with the organizational framework of the labour market policies as the bridge.

In this article we will make an assessment of the recent trends and critically discuss the consistency of current Dutch institutions. In the second section we will give a short overview of the origins and further development in the system of industrial relations. In a third section we will deal with some recent trends. Then we will make a particular characterization of the current Dutch situation, also by comparing it with the situation in other European countries. In a fifth section we discuss the sclerosis of the Dutch labour market and in a sixth section we will deal with a number of institutional inconsistencies. We end up with an epilogue, in which we look back to what we have said in order to better look ahead to see what must happen to improve the situation.

2. Developments in the System of Industrial Relations

The first local union was founded in 1861 when a group of typographers decided to found a service for unemployed and ill people and to strive for improvements in the labour conditions of the employed.¹ This was the beginning of a process that transformed the determination of wages, including social benefits and the availability of basic services, from an individual to a collective issue. Especially the socialist oriented workers strived for a universal system of collective bargaining about everything important for the community as a whole. Besides the socialists the christian oriented organizations have played a major role. In contrast with the socialists who interpreted the union as an instrument in the hands of the workers in their class struggle against the capitalists, the confessional parties have always strived for cooperation with the capitalists. In their opinion both parties has to convince each other of the common interests by means of consultation and moral suasion.

When we look at the history of the first half of the 20th century, we can say that under the socialist threat of general strikes and revolutionary activities, the employers agreed to an increasing extent to consultations with the unions in order to cooperate with them. The process of collectivization of the industrial relations can be illustrated by a number of important landmarks. Under the pressure of the Railroad strike in 1903, the conservative-confessional government developed legislation with respect to wage determination. In 1907 it was regulated that collective bargaining results would be valid for all union members, irrespective the question whether or not the members had already concluded private contracts. After the First World War there was much social upheaval, leading to more political influence of unions, directly via the so-called Labour Council in 1919 and indirectly via the introduction of universal suffrage for men in 1917 and for women in 1921. This have had a tremendous influence on the political power relations. In 1927 a law was adopted regulating that not only members of a union, but all workers of a particular firm that concluded a collective labour agreement with

¹ An authoritative book on Dutch industrial relations, written in english is: J.P.Windmuller, Labor Relations in The Netherlands, Cornell University, 1969. For more recent publications see also: J. Visser, Continuity and Change in Dutch Industrial Relations, ch. 7 in G. Baglioni, C. Crouch (eds.), European Industrial Relations, Sage, London, 1990; and: J. Visser, The Netherlands: The End of an Era and the End of a System, ch.10 in A. Ferner, R. Hyman (eds.), Industrial Relations in the New Europe, Basic Blackwell, 2nd edition, 1993.

the unions fell under the jurisdiction of the contract. Under the influence of the Great Depression and its potential to political instability, the conservative-confessional cabinet decided to a number of laws, of which, for our subject at least, the Law on the Extension and Nullification of Labour Agreements (1937), was the most important. This law has given the Minister of Social Affairs the authority to extend the jurisdiction of a particular contract, resulting from a collective bargaining process, to all other firms and workers in the industry in which the contract is concluded. Moreover has the Minister the authority to nullify a particular collective agreement, when he considers the contract to be damaging for the general interest.

After the Second World War the government decided about the wage level during the first 10 to 15 years. In the first years of recovery the unions and employers' organizations (together called "the social partners", to illustrate the end of the class struggle), did not have much influence on the government's decisions. Later on the government took its decisions to an increasing extent after consultations of the social partners. From 1953 the Dutch economy was turned back in a near equilibrium situation. Because this was not only true for The Netherlands, but for most economies in the Western world, a period of high rates of economic growth began. The Dutch unemployment figure fell to a very low level. The employers' organizations began to grumble about the central wage policy of the government. It forbade the employers to compete with each other on the labour market by means of wage increases. In 1959 the Liberal party was substituted for the Labour party in the cabinet. This centre-right government promoted some decentralization with respect to wage bargaining. The target was to get some industrial differentiation in the wage increases. Although the government tried to moderate the development of the wages, huge increases occurred in 1963, 1964 and 1965. In the same period several laws were in preparation to introduce important social services and related issues. During the second half of the sixties government expenditures concerning social services and security, house construction, education and health care began to rise. At the same time unions put growing pressure on the government not to intervene into the process of wage determination. Although in 1970 the economy was "in equilibrium", a look at the financial structure of the private firms would have shown to the politicians of the time that the process of profit squeeze that was going on, would ruin the economy sooner or later.

The oil crisis of 1973 and the subsequent international depression was the immediate cause for the recession and depression of the economy during the second half of the seventies. The government, dominated by social democrats and progressive confessionals, tackled the crisis in a Keynesian way: increasing government spending and a policy of wage restraint. The policy was a success when we look at the unemployment figure, which rose only slightly. The state of government finance however, was alarming. When the second oil crisis of 1979 dashed slightly positive expectations, unemployment rose sharply and was it clear for most politicians that the time had come for a strategic change. In 1982, the Lubbers administration of a centre right signature, announced a no-nonsense policy for the next decade, implying huge government spending cuts and decentralization of wage bargaining where the government promised to abstain from intervention. The autonomy and the own responsibility of the social partners was stressed. The results were an improvement in terms of government finance, inflation and economic growth, but unemployment remained unacceptably high. At the end of the eighties it was clear however that a further restructuring of government finance was

needed, and for a substantial fall in the unemployment rate, ongoing wage restraint and a more flexible institutional framework of the labour market had to be considered as a prerequisite.

In the following section we will deal with a more thorough analysis of recent trends in Dutch industrial relations.

3. Recent Trends in Dutch Industrial Relations

As already said, from 1979 on the unemployment figure began to rise, in the same year when a law was adopted regulating linkages between wages and social benefits.

When Lubbers became the prime-minister of a christian-democratic and liberal cabinet in 1982, a new period had come. He promised the social partners not to intervene into the process of wage bargaining. The social partners agreed to a policy of wage moderation, profit recovery and redistribution of employment. The government's contribution to this development would be a restructuring of government finance, leading to lower debts, interest rates and tax burden. To achieve this, the cabinet took a number of tough decisions: sharp cuts in the level of expenditures, in particular with respect to the big spending fields: social benefits, education and health care. Social benefits, although linked to the wages in the private sector, were cut with 3% and, as also happened with the legally regulated minimum wage, nominally frozen for a number of years.

In the period of Lubbers II, the Law on the Adjustment Mechanism, in which social benefits, wages in the collective sector and wages in the private sector were linked with each other, was suspended (1986). During every fall Consultations were held between the Cabinet and the social partners. In some years the parties decided to Agreements, in which they formulated a number of recommendations to the negotiating parties on industry or firm level. In earlier days these Agreements contained maximum wage increases and was its implementation easily be monitored by the government. Because of the high number of unemployed, wage arrangements had become less necessary because both social partners declared themselves convinced of the strategy of wage restraint. But the necessity of employment agreements rose. Employers however, have never been prepared to fix employment levels. So the arrangements they concluded to in the Central Consultations, changed from character and have to be interpreted only as targets now.

Not only the unemployment had arisen to unacceptable levels. The same happened with the number of recipients of other benefits. Especially the number of sick and disabled persons showed disastrous increases. The policy reaction to these developments was twofold. First the cabinet decreased the rate of the disability benefit from 80% to 70%. Further decreases appeared to be socially and politically unacceptable. Second became the government aware of the necessity to organize the social security system more efficiently.

It is from this time that the organizational circuits of industrial relations on the one hand and that of the welfare system on the other hand became more integrated. Up to then the world of CLA-bargaining dealt with wages and other labour conditions. To an increasing extent employment, training and social security affairs play a role in that circuit now. The world of social security organization was a rather autonomous world. But the huge cost

increases have raised doubts with respect to the efficiency of that circuit. Because of the strong interconnection between the practical problems in the field of social security, training, wages and employment, an efficient approach would indeed imply a better integration of both circuits. Especially in the nineties we see that this process of integration is going on.

In fall 1990 the Central Consultations produced a Declaration directed towards a push back of the number of disabled persons, the amount of sick-leave and the level of unemployment among ethnic minorities. In the same year the Public Employment Services began to operate in a reorganized form. The restructuring was meant to get the social partners more involved into the implementation of labour market policies.

In 1991 the government presented proposals in the Parliament for a drastic change in the treatment of ill and disabled workers. A more stringent control was combined with lower benefit rates for shorter periods and to premiums, which became different for the various industries and firms.

With respect to the determination of wages, unions became sick of continuing wage moderation. For already about 10 years they had accepted very low wage increases. The competitiveness of the Dutch economy, expressed in unit labour costs, had increased significantly. But increasing profits and solvency had not led to a significant increase in employment, expressed in man years. Social upheaval in the Rotterdam harbour was the beginning of a period of unrest in various other industries, leading to growing tensions between industrial unions in flourishing sectors on the one hand and the central organization of unions on the other hand. With hindsight we can say that the central organization have appeared to be rather successful in isolating the harbour from the rest of the economy. The harbour workers achieved a high wage increase, which was not followed by other industries.

Because the economic foresights were bad, and the government was not sure of continuing wage moderation by the social partners, the 1980 Law that regulated the linkages between benefits and wages, was changed. In the adapted law the linkages were made conditional to the economic and social performance. Especially the ratio between the inactive people receiving a benefit and the number of employed became an important indicator on the basis of which the Minister of Social Affairs can decide every year whether or not it is justified to maintain the linkage.

This tough approach of the government was not appreciated by the union rank and file. Especially the measures focused on the sickness and disability arrangements were reasons for serious conflict. The union and employers' leadership negotiated about what they called the disability gap and in 1993 about 85% of all workers were covered by CLA's that contained a complete suppletion, undoing all the changes regulated by legislation.² This strategy had the unintended effect of bringing the practice of the government to automatically extend CLA's to the whole industry on the political agenda.

² The disability gap is defined as the difference between the sickness and disability benefit rates before and the rates after the legal reform. See for the figures: Department of Social Affairs and Employment (SOAFEM), CAO-afspraken 1993, juni 1994.

In 1991 and 1992 the wage negotiations on industry and firm level were influenced by optimism with respect to the economic development. The results reflected this optimism: 3.5 and 4.4% contract wage increase respectively.³ The currency crisis in september 1992 however, made clear that the economic situation in Europe was not that good. Central Consultations led to the request to bargain about adjustments of existing contracts and not to renew expired contracts for a couple of month. The resulting increase in the contract wage was 3.5%, which was lower than the 1992-figure.

As already said the economic development in 1993 was worse than expected. During the Fall Consultations the three parties agreed about the necessity of not increasing the wages. Because of this consensus the government decided not to announce a wage stop. When we look at the contractual wage increase for 1994, we see that the social partners have kept their promises (0.8%).

For 1995 the main issue on the agenda of the Central Consultations was the gap that has grown between the legally determined minimum wage on the one hand and the CLA-regulated minimum wage on the other hand. Because of the nominal freeze of the legally determined minimum wage during the period 1984-1989 and from 1992 until now, the gap has grown during the last period. In 1991 it was about 10% and today it has grown to about 15%. The figures presented are averages. When we look at the gaps for specific groups, we get different figures: people in the age of 16-20 face a very large gap; for instance 19 years old workers face a gap of 31.3%. Plasterers even face a gap of 46.3%.⁴

Because a significant part of the unemployed are un- or low skilled, the need for jobs in the income interval of the gap is strong. The parties in the Central Consultations have agreed to create a significant number of jobs in the income area just discussed. Another major point was the creation of jobs for ethnic minorities, among which the unemployment is also excessively high. The government was prepared to create extra jobs for long unemployed.

Information about the results up to now (october 1995) indicate some success. The ambitious target of 60,000 jobs for ethnic minorities may be achieved. And the results with respect to the placement of long unemployed in the collective sector are encouraging. The 1995 Fall Consultations dealt with the continuation of the employment programmes with respect to ethnic minorities and long unemployed by fixing new targets. The unions appeared only prepared to continue wage moderation as the employers' organizations were prepared to accept a programme of labour time reduction. Up to now Dutch employers were never happy with these kinds of ideas. So it is uncertain what will be the outcome.

A last point playing a role is the re-integration of formerly disabled persons. In the period 1995-1996 a medical re-examination of all disabled persons has started. It will take years to examine all the persons, younger than 50 years old. As we look at the results up to now, more

³ See for the figures: Department of Social Affairs and Employment (SOAFEM), CAO-afspraken 1991-1992, May, 1993.

⁴ See Department of Social Affairs and Employment (SOAFEM), CAO-afspraken 1994, February, 1995.

than half of the group has got a lower or even a zero percentage; where the percentage expresses the degree of disability.⁵

For that part for which a person is able to work, he gets an unemployment benefit, of which the rate is lower than the disability benefit rate. The Central Recommendations will also deal with the need for a re-integration of those persons. At the industrial, firm and regional level the parties must negotiate how to organize this process of re-integration.

Looking ahead the agenda of the Central Consultations and subsequent industrial and firm bargaining will be dominated by employment targets and social security affairs. Labour time reduction and early retirement arrangements will appear to be tough matters, of which the payability will become very problematic. Moreover the effect of labour time reduction in terms of decreasing unemployment may be doubted; the number of workers who have two jobs is already rising.

The international developments will have a growing influence on the results of the bargain. In a small open economy with free trade on all markets, the room for independent social policy is smaller than in a large relatively closed economy. So growing global competition on all markets makes serious reflection on the institutional framework necessary.

4. Characterization of Dutch Industrial Relations

In industrial relations literature the distinction between *centralised versus decentralised bargaining* is very important. The criterion that is decisive for the characterization is the level on which the decisions are formally taken. The problem with this method is that informal or cultural factors are ignored. At least for The Netherlands the so-called structural approach would give an unacceptable bias to the interpretation of crucial developments.⁶ Careful analysis of what happens in the industrial relations world makes clear that on all levels parties are aware of the fact that developments on the central level are very important. The main reason for this importance is that Dutch workers have a strong inclination to compare their labour market position with other groups. Related with this characteristic have Dutch unions always asked from workers to be solidaristic with each other. The potential of the economy at large has always been an argument in the (decentralised) bargaining about wage increases. This implies that the Dutch centre plays an important role in the coordination of wage developments and in the achievement and maintenance of full employment. If the centre fails to fulfil its coordinating role, it would have negative consequences for the economic and social developments.

Looking at the situation of the Dutch industrial relations in the eighties and nineties, we see that the Central Consultations do really play an important role. In terms of structure the

⁵ M. Cluitmans, C. Wijnker, "Ach meneer, aan die pijn went u wel; herbeoordeling van -arbeidsongeschikten", Internship Report, University of Maastricht, 1995.

⁶ F. Corvers and A.P. v. Veen, On the Measurement of Corporatism, ROA Research Memorandum, 1995/1E.

significance is nearly zero. The only thing the centre is allowed to do is producing recommendations. But as a platform where information exchange takes place, and where opinions are made, also about the actual power relations, the Dutch centre is indispensable for a well functioning of the labour market. During every fall the parties meet each other in the formal context of the Labour Foundation. Then they coordinate their policies and look whether it is necessary to make formal recommendations to the parties on the industry and firm level. In the eighties the social partners on the central level agreed to wage moderation and for the government this was sufficient to promise not to intervene into the process of wage bargaining. When in the nineties some industrial unions became sick of wage moderation, the government decided to help the central unions in their attempt to get their rank and file disciplined. They considered to freeze wages and to reconsider its right, not to say its habit, to extend CLA's. In fact the role of the centre is to push the negotiating parties on the industrial and firm level to a result that is in accordance with the free market model that is used in mainstream economics. Without such a policy push from the centre, full employment would be an utopia. Looking at the performance of the Dutch economy today, the push from the centre is insufficiently strong to achieve full employment.

Another distinction can be made in terms of collectivization versus privatization. The core of the industrial relations system is the collective bargaining institution. A system of private bargaining leads to unemployment, poverty and inequality. So a country has to set up a collective system. In the case of social security the same arguments can be used. Looking at the performance of the mixed economies however, one gets the idea that the organization can be improved in terms of efficiency. The mix of private and collective activities has led to a tax burden which has become a serious bottleneck for economic growth and high employment. To solve this problem one must look for more efficient labour institutions. The attempt to re-organize the implementation of labour market policies from a governmental towards a corporatist approach, now appears an unlucky step. The growing influence of private employment services, accepted by the government by adapting legislation, also reflects a change in the organizational mix; their incidence appears very fruitful. A further step is the abolishment of the Sickness Act. So there is a process going on to privatize parts of the social security system and related labour market affairs. We can expect this process to continue, because it suits perfectly the overall development of privatization that is going on in other markets.

In general we must say that political strategy making with respect to labour institutions will necessarily remain a collective affair. The implementation however, may to an increasing extent be more and more contracted out to private organizations in the near future.

In the introduction we have said that it was very difficult to characterize the current Dutch situation. The reason is that the Dutch are cautiously looking for the optimal institutional mix. What kind of organizations must do what kind of activities and on what level? The increase of the number of issues on the agenda of the Central Consultations indicates a process of collectivization and centralization. The increase of the number of CLA's, on the firm as well as on the industry level may imply collectivization. When looking at the legal reform with respect to sickness and disability, we can characterize it as decentralization and privatization.

When looking at the contract wage increases, we see a very uniform development.⁷ So we cannot conclude to a process of decentralization that would be going on. This result is in contrast with conventional wisdom.

Another way of characterizing the Dutch situation, is a comparison with the situation in other European countries. Therefore we will introduce two classifications of systems, derived from recent Industrial Relations research. The first is the distinction between systems focussed on consensus and systems characterized by conflicts, developed by Dell 'Aringa and Lodovici (1994). Central European countries, such as the Scandinavian countries, Germany and Austria, were able to gradually install corporatist institutions, on the basis of consensus with respect to the distribution of wealth and power. In this way they were able to maintain social peace. Looking at the rates of economic performance, social peace appears to be a profitable collective investment good. On the other hand we have countries characterized by conflictuous relations. Here we can introduce a subdistinction between pluralist and oligopolistically structured societies. Pluralist societies are characterized by many but relatively small conflicts. The USA is a good example and Thatcher has brought the United Kingdom into this class, since the eighties. Oligopolistically structured societies however, are dominated by a small number of groups. In Western economies the main conflict is between capital and labour and between various labour groups. The intra-labour controversies have to do with the blue versus the white collars, the private versus the public sector labour, and the marxian or the social democratically or the confessionally oriented groups. Regularly these groups struggle with each other, in constantly changing coalitions. France, Spain and Italy are good examples of this subclass. When looking at the economic performance we can see that pluralist societies perform better than the countries with an oligopolistic structure.⁸

A second classification is that of Esping-Anderson (1990). His extensive empirical research led him to distinguish between a conservative, a liberal and a social democratic system. Although his classification is especially designed to describe welfare systems, we can use it for our industrial relations purposes very well. A conservative industrial relations system then is focussed on the regulation of the labour market, leaving the social stratification intact. This implies that only redistribution takes place between 'members' of the same stratum. So the 'natural' hierarchy will be preserved. The social democratic system is focussed on the regulation of the labour market in a way that creates order by means of a marked increase in equality with respect to wealth and power. So in contrast to the conservative policy, the social stratification is significantly changed in an egalitarian direction. The third system distinguished is the liberal system. It creates order by giving the poor a minimum of resources, making it possible

⁷ SOAFEM, CAO-afspraken, 1994, February 1995, p. 10.

SOAFEM, CAO-afspraken, 1993, June, 1994, p. 18: the period 1991-1993 shows an average increase of 11.5% with an absolute deviation of 1.4.

⁸ See the OECD unemployment and inflation indices over the period 1974-1990, in Economic Outlook, July, 1991.

for them to have a living and possibly increase their own opportunities. In the liberal view government interference must remain individual freedom intact as much as possible.

To characterize the different European countries in terms of the Esping-Andersen classification, we can typify Scandinavia as social democratic, Germany and Austria as conservative and the UK as liberal. Italy, Spain and Belgium have a system that is a mix of social democratic and conservative elements.

Now we can give The Netherlands a place in the European landscape. During the fifties there was an almost perfect consensus of a democratic-conservative kind, between capital, various labour groups and government about the distribution of wealth and power. During the sixties there was a remarkable shift towards more conflictuous relations of an oligopolistic structure. Under the pressure of a long during hausse social democratic influence increased, especially via unions.⁹ During the seventies the government regained some power, because of the atmosphere of crises resulting from the huge increases in the oil prices. During the eighties, under the pressure of high rates of unemployment, governmental intervention in the wage development appeared to be unnecessary and we can observe a growing influence of liberalism at the cost of the influence of social democratic thinking. Now we are in the nineties, the only clear development is the growing influence of liberalism on the Industrial Relations design at the cost of the conservative corporatist elements. Privatization of executive agencies, less generosity with respect to social benefits and more company CLA's are an illustration of this tendency. It is impossible to predict the development in the Dutch system in the near future. If we assume that there are no remarkable, unforeseen developments, then liberalization of the system will go on for a while and will reach a point that fits Dutch culture most. Then the time has come to improve the discipline of the Dutch people with respect to their own rules.

In the next section we will look at the sclerosis which is supposed to be a principal characteristic of the Dutch labour market.

5. The Sclerosis of the Dutch Labour Market

When one looks at the figures expressing economic growth and unemployment, 1973 can be considered as a turning point. With hindsight we can say that the measures taken to prevent or to counter depression and poverty, have appeared to be hindrances to recovery. The world depression of the seventies has hit the Dutch economy in a way that made it impossible for the Dutch to return to equilibria rather soon. In Table 1 we have presented a number of key variables and we can see that economic growth and unemployment did not return to pre-seventies levels. When we look at the profitability of investments, we see that long periods of wage restraint have had positive effects. However, up to now this has not led to structural

⁹ See for empirical research with respect to shifts in ideology and militancy of unions, - employers' organizations and political parties: P.K. Keizer, Inflatie als politiek-economisch - verschijnsel, Stenfert Kroese, 1982.

increases in the investment ratio (see Table 2). Apparently investors have not changed their mood with respect to Dutch competitiveness. Most watchers of the Dutch economy focus their attention to government finance. Some improvement is achieved and the international financial markets have sufficient confidence in the guilder because of its stability relative to the German mark. The debt ratio however, remains rather high. Another point to bother about is the high number of inactive persons who get a social benefit. Even when we exclude the pensionaries, the number is very high. Therefore it is not surprising that the tax burden is, according to most watchers, unacceptably high (see for the figures Table 1).

When we take all these data together, we have a good overview of the Dutch sclerosis. On all levels of governance many measures are taken. But the figures show that the lack of adjustment or sclerosis has not been exorcised.

Table 1 Some Key Figures (in percentages)*

	61-73	74-93	74-83	84-91	92-93
GDP-growth	4.8	2.0	1.6	2.9	0.8
Unemployment**	1.1	7.1	5.4	9.2	7.4
Labour share	80.3	85.9	89.6	84.1	85.6
Tax burden	41.1	50.8	49.7	51.7	52.3
Government deficit*** 4.0	5.9	5.9	5.7	3.6	

* Source: CPB, Centraal Economisch Plan 1995, the Hague, 1995.

** Because of the generosity of the Dutch disability fund, these figures are biased. When we look at the number of benefit recipient expressed as a ratio compare it with the number of employed and express the relationship as a ratio. the 80s show an average of 80.6%. The period 1991-1996 show an average of 82.9%.

*** The deficits of the government, including the local government are very persistent leading to very high Gross Debt ratios of the Dutch collective sector (in the nineties about 80% of GDP).

Source: Composed of figures found in: CPB, Centraal Economisch Plan, 1980, 1992 and 1995, the Hague.

Thinking about the phenomenon of sclerosis we can distinguish between four factors that play a role in the reaction speed of subjects in disequilibrium.

In the first place the *history* of the subjects. If for instance workers have the experience that predictions of employers with respect to the effects of wage changes are wrong most of the time, they loose confidence and are not willing to concede on the basis of new predictions. More generally, subjects use their past experiences to build up emotions, habits, traditions and pictures of the world. On this basis they react on changes in their situation. Relevant for the Dutch labour institutions was the experience of the unions in the sixties that, in contrast to what the employers' organizations had said all the time, ten years of significant wage increases did not have any negative effect on the employment. Workers got used to increases, and

employers' organizations got used to conceding to union claims. When after such a stable period drastic changes in the environment take place, the economy is full of inertia.

In the second place the *changes in the environment*. If for example the environment changes from a simple and stable context to a complex and dynamic one, an economy will unavoidably show larger disequilibria. Not any country have appeared to be able to smoothly adjust to new equilibria, when two oil crises hit the world economy. Of course it is also true that some economies are more vulnerable to particular developments in the environment than others.

Table 2 Some Financial Key variables (in percentages)

	1970	1975	1980	1985	1990	1995
capital share	18.7	6.4	5.3	12.3	19.8	17.3
profit share	13.6	1.0	-0.9	5.4	12.9	10.2
profitability (own capital)	10.7	3.0	2.1	6.1	10.4	8.7
solvability	48.7	42.6	39.8	41.0	43.7	43.9
investment	20.2	16.8	17.2	17.7	17.4	16.3

Source: Centraal Planbureau, Onderzoeksmemorandum, No. 115, A.P. Kusters, - Winstgevendheid en vermogensverhoudingen, the Hague, 1994.

Two related factors make that the global environment will keep its complex and dynamic character: the accelerating technological progress (especially the information technology), and the emerging global competition on all sorts of markets. In earlier days the comparative advantage of a country in trade was described in terms of geographic characteristics. Nowadays, experts speak in terms of competitive advantage, meaning the capacity of an economy to adjust to constantly changing environments.

In the third place we can ask the question whether the institutions offer enough *room for adjustment* to changes in the environment. For instance are there norms restricting overtime, work by women, or elderly people. Are there internalised norms telling unemployed or disabled people that society cannot ask from them to change from profession or to change from social ranking. Are there norms or legal rules making it impossible for the employer to fire people if they are not profitable enough, or rules saying that workers within a firm cannot be replaced to another department involuntarily. So we can think of many traditions, habits, norms or rules that limit the possibility to immediately adjust to changes in the environment. On the other hand we must recognize that institutions are not only limiting the possibilities to adjust. It may also function as definitions of the room in which subjects are located. This

makes it possible for them to calculate costs and benefits of the various activities that can be developed. Without an institutional framework interpretations of reality in general, and cost benefit calculations to assess the profitability of a particular project, are difficult to make. In extreme situations this leads to apathy and inertia. So the problem is how to develop institutions that can be considered as optimal: stimulating profitable action and restricting unprofitable action and passivity.

In the fourth place can we look at the *institutional flexibility*. If groups, organizations and societies discover that their institutions, although very valuable, can only be maintained at increasing costs, would they be able to monitor this and to react upon this fact. In other words, how aware are people with respect to the costs and benefits of their institutions. Our conjecture is that *institutional awareness* is one of the most difficult things to develop. People are hardly aware of their traditional or habitual kinds of behaviour. Unawareness is one of the characteristics of it. When people talk about norms and values, about their morality, for most of them it has an absolute value and must be accepted irrespective the price.

Taking these four factors together, we must say that *institutional awareness* is basic for a sophisticated analysis of the efficiency of a particular framework. Historically determined institutions must be audited regularly and adjusted if necessary. So an optimal institutional framework can emerge that gives a maximum incentive to profitable activities. When looking at the globalisation of the economies, we can imagine that there will also be an emergence of a market for institutional frameworks. Institutional competition will mean that badly functioning frameworks will disappear. People will change from political stand and vote or struggle for different institutions. If collective strategies fail, emigration towards economies with more efficient institutional frameworks may be considered.

In the following section we will discuss a few characteristics of Dutch labour institutions to see whether there are possibilities to improve the institutional consistency and flexibility. So we want to contribute to more institutional awareness, necessary for having a regular institutional audit.

6. Inconsistencies in Dutch Labour Institutions

With respect to the process of *wage determination* the most important decisions are taken by a number multinational firms and by industrial bargaining. Some CLA's appear to be wage leaders; the rest of the CLA's are followers. This leader-follower phenomenon results from the so-called solidaristic wage policy that dominates union thinking. The phenomenon can be explained by sociological theory that says that every individual has other individuals or groups in mind with which he compares himself. If the group to which is referred gets something, he considers it fair to get it as well. This theory of the reference groups is in contrast with the mainstream economics approach that says that every individual only looks at his own inputs and outputs. The question is now how people decide about their reference groups. In our case of wage comparison the solidarity principle says that people with equal labour input must get the same wage. So an unskilled worker in the electronics industry in the North-eastern part of The Netherlands must get the same wage as an unskilled worker in the electronics industry in the South-western part of The Netherlands, irrespective his productivity. If one considers the capitalist class as the owner of an economy and therefore as the only responsible group in the production process, then one can reason along these solidarity lines. Then the working class is only responsible for delivering input, irrespective the conditions. So the money value of output sold that is produced by a unit of input is determined by decisions which are taken by the capitalist class; that means completely beyond the control of the labour class. So conditions must not play a role in wage determination; only the labour input. In a central planning economy this would be a consistent principle. But in a market or mixed economy this way of thinking is an anomaly.

As soon as one considers labour as also responsible for the results of doing a particular job in a particular firm and in a particular region, then the wage must also have some connection with the money value of the output per worker that is sold. Then there can be significant differences between the different wages earned by offering equal inputs. Unfortunately many European unions apply the specification of the solidarity principle in the wage determination, as is just explained; and this leads to equal pay for different performances. As long as unions stick to this rule of equal pay for equal input, then it must not be surprised that the reaction of the markets will be a lower demand for labour that is located at a place where it is overvalued. The literature on the Scandinavian approach to wage inflation analyses under which (extreme) conditions this wage policy will not lead to unemployment.¹⁰ In other words, in general this will induce unemployment.

When we look at the so-called *linkage problem* in The Netherlands, then we see a striking similarity with the solidaristic wage policy. The civil servants want the same wage increases as are paid in the private sector. And for all kinds of social benefits solidarity must mean that they all get the same increases as is arranged in the private sector. When we imagine the extreme case in which the big multinationals, operating in highly capital-intensive industries and characterized by large labour productivity increases, pay their personnel according to the

¹⁰ G. Edgren, K.-O. Faxen, C.-E. Odhner, Wage Formation and the Economy, George Allen & Unwin Ltd, 1973.

productivity rule and all other sectors, including the "social, inactive industry", get the same increase, it is easy to show that this would ruin the economy. We can conclude that the solidarity principle as applied by the Dutch unions is neither fair nor efficient.¹¹ Fortunately the principle is applied only partly. The followers do not follow perfectly. But it would be better to recognize the flaw in the principle and to look for other approaches, which are more fair and more efficient.

With respect to the necessity of a more austere welfare system the Dutch government has decided to lower the benefit rates in case of sickness and disability (1991, 1992). The reaction of the "social partners" however, was that they decided to what they called a *reparation of the social security legislation*. They agreed in the CLA's that the employers would pay the difference between the benefits as they were before the legal reform and as they were now arranged by legislation (the so-called disability gap). In place of a nullification of that kind of CLA's, the Minister of Social Affairs decided to extend these agreements. The result is that in many cases the sickness benefits are back on their 80-100% level, while most of the disability benefits are back on their former 80%-level.¹²

Fortunately other measures taken *to decrease the volume of sickness and disability benefit recipients* appear to have a positive effect. With respect to sickness the measures have made the *employer more responsible*: he must pay the first two and in some cases the first six weeks, before the ill people are paid by the sickness fund, which is organized industrially.¹³ These measures were an incentive for the employers to spend more time on monitoring and on improving the working conditions and on personnel policy. Also with respect to the disability benefits measures are taken that have made the employers more responsible.

Moreover the administration of the social security system has started a project in which *all disability benefit recipients are medically re-examined* to look whether they are full time disabled for every job or whether it is possible to mark a person as part-time or full time abled with respect to jobs that fulfil a number of conditions. In many CLA's the negotiating parties have agreed that firms would develop personnel policies where room is made for a re-integration of formerly disabled people.

Although the measures taken must be welcomed as a necessary element in the political attempt to get a more austere welfare system, there will remain a severe problem. If employers are made more responsible for the sickness of their personnel, they have a stronger incentive to get rid of all workers that do not have a perfect health. When in such a climate the CLA asks from the firms to accept more formerly disabled people, then both policies are counter-

¹¹ P.K. Keizer, De koppeling, doelmatig noch rechtvaardig, Economisch-Statistische Berichten, 20-02-1991; p. 196-200.

¹² SOAFEM, CAO-afspraken 1994, February, 1995; p. 39. Almost 90% gets the following average disability benefit rates: 89% in the first year, 73% in the second year; then 70%.

¹³ A few month ago a law is adopted making employers fully responsible for ill employees. May be an adaptation will take place in the near future, because doubts has arisen with respect to the effects of this piece of legislation.

acting each other. If the re-integration of formerly disabled people fails, the project of medical re-examination has only had the effect of a decrease in the benefit rates (the unemployment benefit rate is lower than the disability benefit rate). If one really strives for re-integration a more sophisticated approach is necessary.

With respect to the level of the *social minimum* in The Netherlands, in most of the CLA's parties have agreed to the creation of jobs with a wage level between the current CLA-level and the minimum wage as defined by legislation. In the years to come we will see the results of it. The reason however why optimism is not justified, is that one can doubt whether in that range of about 15% employers can create the huge amount of jobs needed for a significant drop in the number of benefit recipients. Employers regard most inactive people as risky elements. Some people are formerly disabled, others are long unemployed or have little work experience. In situations where firms are uncertain with respect to the future, they will not invest in people who need much guidance. This means that wage decreases of 15% will not be enough to significantly reduce the unemployment. One can even doubt whether wage decreases are the only necessary instrument. Skills training (intellectually as well as mentally) and accompaniments are also necessary ingredients of a successful policy package.

As we have seen in the foregoing the reorganized *Public Employment Service* plays an important role. After its start one of the first problems they had to face, was a severe cut in the budgets they received from the government. May be the reason was distrust of the government in the capacity of the organization to fulfil the intended role. If this assumption is true, the government must quickly decide to completely reorganize the whole administration of social security, job search and training. As it is organized and equipped now, we cannot expect something else than failure. Up to now Sweden has the most sophisticated system of *active labour market policies*. But we must hope that The Netherlands do not make the Swedish mistake to replace about 80% of the unemployed and retrained people in the collective sector. That would make it nearly impossible to get a lower tax burden, which is very desirable in Sweden as well as in The Netherlands. The challenge must be to get people placed in the private sector. In that sense it is to be regretted that the purple cabinet has adopted a plan to create 40.000 jobs (socalled Melkert jobs, named after the Minister of Social Affairs) in the ... yes ... collective sector. One of the reasons for Melkert is, of course, the fact that replacement in the private sector is more difficult, especially when dealing with problematic groups. But we must recognize that we cannot continue to solve the social problem by simply letting the collective sector grow, as we have done during the sixties and seventies.

7. Epilogue

Looking back to the Dutch policies, continuing wage restraint for already a very long time has improved Dutch competitiveness. Together with continuing cuts in government expenditures, it has led to a more proper financial situation for firms and government. But this approach has appeared to be only a necessary but not a sufficient condition for a huge decrease in the number of social benefit recipients. To achieve this, three other things are necessary as well:

- (1) The EU must stimulate European spending, especially by investing in European infrastructure;¹⁴
- (2) Dutch Central Consultations must focus especially on the employment and social wage problem; a nominal freeze of contract wages would be wise; every firm then must be obliged to introduce a system of profit sharing and investment wage, of which the specification is subject to CLA-bargaining. In order to improve the micro efficiency on the labour markets, CLA-bargaining must set on the agenda a widening of the wage scales. Not only on the lowest levels, as it happens at the moment, but for all ranks. This must make wage increases for individuals or particular vocational groups easier. The extension or nullification of CLA's must be part of the Consultations.
- (3) The Dutch must set up an organization that really integrates social security, unemployment registration and a sophisticated system of labour market information; on the basis of adequate information this organization must help people in finding jobs; the search must not only be focused on jobs, but also on appropriate training facilities.

The first point is the Keynesian solution to the problem of unemployment. Small open economies are not fitted for the job of Keynesian policy making. So we need a more central level; in our case the EU looks the appropriate one.

The second point must make the labour markets more flexible on the individual level. Too long is wage policy regarded as only a macroeconomic affair. We must realise that both forms of wage policies will always be necessary, the macro as well as the micro component.

The third point is focussed on the organization of *active* labour market policies. Private employment agencies must be welcome on this market. But a commercial organization cannot help the poorly endowed people. The development of a voucher system as proposed by Snower could be helpful here.¹⁵ In that case the task of the government is primarily the

¹⁴ Although we did not deal with the macro context, we must be aware that macro developments must fulfil a number of necessary conditions for successful macro and micro policies with respect to the labour market.

¹⁵ D.J. Snower, Converting Unemployment Benefits into Employment Subsidies, American Economic Review, 94(2), p. 65-70. Snower warns us for the danger of giving vouchers to persons that also would have got a job without a voucher and the possibility of substituting people with a voucher for employed people. See for a discussion of the effects of welfare provisions also: A. Lindbeck, The Welfare State and the Employment Problem, American Economic Review, 94(2), p. 71-75.

allocation of various sorts of vouchers among the different target groups. Also in this case is it time for institutional innovations to improve the efficiency of social policies.

